

Wealth Management For Your Future



Trust & Investments

www.citystatebank.com

Third Quarter 2009

Now's A Good Time To Reassess Your Finances

With so much going on in our lives, it's easy to put things off for another day. But getting your finances in order isn't something you should delay, especially given the recent turmoil in the economy.

If this goal seems daunting, it may help to break it down into smaller, more manageable tasks. The important thing is to get started on it now.

Organize your finances. Most people lose control of their finances because they don't have a clear system for managing them. You'll feel much better and save time and money if you resolve to sort and file



paperwork quickly and set reminders so important deadlines don't sneak up on you. Online banking and bill-paying may also help.

Pay off high-interest and variable-rate debt. With real investment returns on the low side, it hardly makes sense to pay double-digit interest on credit cards or other debt. Look for ways to consolidate any outstanding debt at still-low fixed rates.

Max out tax-sheltered savings. Contribution ceilings for 401(k)s, IRAs, profit sharing, and other tax-deferred retirement savings plans have risen. Meanwhile, catch-up provisions if you're 50 or older may let you save more. Push your savings up to the new levels allowed. Meanwhile, if you have retirement savings sitting in a former employer's plan, consider rolling them into an IRA, especially if you'll give yourself better investment options.

Sort out college savings strategies. In particular, focus on the benefits of state-sponsored 529 college savings plans. Generally, 529s are a good deal, offering tax-free savings and distributions for educational expenses. And that first tuition bill is coming sooner than you could ever imagine.

Review your retirement plan. Make this an annual ritual. Be sure your plan reflects your latest goals and can handle unwelcome surprises. What if the pension you're counting on fails to materialize? What if Social Security goes away? What if you skip a year's saving to pay for your daughter's wedding? You get the idea.

Check your portfolio. In both up and down markets, maintaining a diversified investment mix can help keep you moving toward your goals. Schedule an annual check-up with your advisor to make sure your investment plan still fits your objectives, and don't forget regular rebalancing so allocations don't stray from their targets.

Consider global investing opportunities. Profitable investments may lay beyond our shores. And there are many low-cost options for entering these markets. Foreign investing does involve special risks, including currency and political risk, but it will allow you to broaden your holdings beyond the U.S.

Update your will. It's your most
(Continued on page 4)

Life Insurance Too?

Yes. We all feel over insured as we make payments for auto, home, and health insurances and while no one can argue against the need for any of these, life insurance is ignored too often.

Although property & casualty and health insurance costs have risen – life insurance premiums have steadily declined. Coverage amounts as well as premium costs should be periodically reviewed to make sure you are not only properly insured, but that you are also making the most of your dollars spent. If you have not reviewed your current universal, whole or term life policies, now is a great time to give Chad or Wade a call. This could be valuable time spent for your peace of mind, and for your family's as well.



David Albrecht, JD, CPA
VP Trust Mgr, CFO
515-981-4234
dalbrecht@citystatebank.com



Chad Stevens, CFP®
VP Investment Mgr
515-981-1400
cstevens@citystatebank.com



Wade Lawrence
Trust & Investments Officer
515-986-2265
wlawrence@citystatebank.com

A Walk Every Day Can Keep Aging At Bay

It's much easier to talk the talk about staying young than it is to walk the walk. Starting in our 20s and 30s, we commence a long, seemingly inevitable physical deterioration. Our maximum heart rate declines, and with it the amount of oxygen-bearing blood the heart can pump. Muscle is gradually replaced with fat and weight edges upward. And decade by decade, as oxygen intake drops, it becomes a little harder just to get around. Eventually, in our 70s, 80s, or 90s, most of us lose our "functional independence," the ability to live on our own. We move to assisted-living or nursing homes because, literally, our living needs to be assisted.

But what if there were a simple way to turn back the clock? In a recent article in the *British Journal of Sports Medicine*, Roy Shephard, a physician at the University of Toronto, reports that for people 64 and older, a vigorous, hour-long walk five days a week cuts a dozen years from their biological age. In a review of other published work on the subject, Shephard found that such an exercise program could also extend a person's functional independence, which tends to be lost when maximal oxygen intake falls below 18 milliliters per kilogram per

minute in men and 15 ml/kg/min in women.



Without this kind of exercise program, about 10 years of physical aging normally corresponds with a loss of about five ml/kg/min. But Shephard found that beginning a program of vigorous aerobic exercise could restore about 25% of maximal oxygen intake within three months,

raising that essential level by an average of six ml/kg/min and decreasing biological age by 12 years.

Shephard also found that regular exercise provides other benefits, helping prevent conditions that may hasten aging including obesity, high blood pressure, diabetes, heart disease, osteoporosis, and even some kinds of cancer. And the improved muscle tone that comes with brisk walking, swimming, or other aerobic activities may help older people avoid falls.

Another study, from Texas, further highlights what exercise can do. In 1966, five healthy 20-year-olds were kept in bed around the clock for three weeks—and suffered many of the ills normally associated with aging. They gained weight, their heart rates and blood pressure rose, and their hearts lost pumping capacity. Then, an eight-week exercise program more than reversed the effects of inactivity. In a follow-up with the men 30 years later, actual aging had imitated the effects of the forced bed rest. But here, too, an endurance exercise regimen undid most of the damage, restoring all of their lost aerobic capacity.

The moral? Exercise always helps, and it's never too late to start pushing back the hands of time. ●

Six Ideas For Frightened Retirees

The economic meltdown has vaporized more than \$2 trillion in retirement assets—at least on paper—and more may disappear during the coming months.

Of course, "retirement assets" means one thing when you're decades from leaving the work force with ample time for your 401(k) to recover. It's something else if you're already retired and drawing on your portfolio for living expenses. Still, the situation may not be as dire as it seems. These six ideas could help keep you afloat until conditions improve.

Avoid panicking and pulling the plug on your investments. Moving

money now from stocks into money market funds and CDs will guarantee losses and leave you battling to keep up with inflation. However, it could make sense to shift to a more defensive portfolio. We can advise you on how much of your portfolio should remain in stocks, based on your age, goals, and risk tolerance.

Shift the source of investment withdrawals. As much as possible, take money from cash and bond accounts to avoid locking in losses in stocks that still look fundamentally sound. That's a good idea even if you're drawing income from retirement accounts—mandatory if you're at least age 70½.

Note: Congress has eased the rules on required minimum distributions from 401(k)s and IRAs for 2009 only.

Cut spending 5% to 10% for the next year or two. Pulling out less from a depleted portfolio can have a very positive impact. So consider putting off travel plans, delaying vehicle purchases and home improvements, and trimming outlays on entertainment and restaurant meals.

Put off collecting Social Security payments as long as possible. If you don't absolutely need this income now, a delay could mean more cash later—8% more for each year you wait between your "Full Retirement Age" and 70,

Markets Often Rebound Before The Economy

Given the extreme recent volatility of the stock market and the worsening economy, it's no wonder investors are on edge. Most have suffered significant setbacks during a recession that is already at record length and could continue for another year or more. It hardly seems like the right time to buy stocks. Yet while no one can know for sure when markets will turn around, that typically happens well before the economy gets going again.

The numbers don't lie. One recent study examined nine recessionary periods defined by the official arbiter, the National Bureau of Economic Research (NBER). According to NBER data charting recessions from 1953 through 2001, the stock market typically declines until sometime during the middle of the downturn and then begins to strengthen.

Starting at the low point of each recession and continuing until six months after its official end, the Standard & Poor's 500 stock index averaged a gain of 36%. That compares with an average decline of 21% for the S&P during a period starting six months before the official onset of each recession and ending at its low point. The average return for an entire recessionary period, including the six months before and after the actual

recession, was 8%, and the average recession lasted 11 months.

The positive return is due to the role of the markets as a leading indicator, meaning that by the time the recession grips the economy, the markets are already looking forward to the eventual recovery. Similarly, much of the drop in the markets occurs in anticipation of the recession, many months before it is made official.

Throwing in the towel. Despite the hard data showing its benefits, buying stocks during the depths of a recession is bound to feel counterintuitive, particularly if you've spent months watching current holdings steadily lose value. Psychologically, it feels better to jump into the market after prices are already surging and getting out when they're falling. But it's exactly when most investors have finally given up on stocks—a situation market pros call capitulation—that the market is likely to bottom out and start climbing. Capitulation tends to happen when economic news is most dire.

Indications of things to come. In the end, of course, market movements are driven by supply and demand, and stocks won't improve this time just

because they've risen under similar circumstances in the past. Still, history can provide important clues about where the economy and markets are likely to go, and economists consider

the stock market a leading indicator—a preview of what may be to come for the economy.

Other *lagging* economic indicators reflect what has already occurred. For example, a higher unemployment rate typically develops because the economy is struggling; when demand for goods and

services slackens, companies often respond by reducing their payrolls. Similarly, inflation may keep rising for months after upward pressure on prices, reflecting an economy at its peak, has already largely dissipated.

Stock prices, in contrast, are based on what investors consider to be a company's prospects. When the economy is at its worst, the road ahead may begin to seem comparatively bright, and company earnings could start to rebound even while current statistics continue to paint a gloomy picture. And when investors finally stop selling and start buying, rising demand for stocks will push up prices.

Chances are that this time, as in the past, the stock market will strengthen well before the economy and point the way forward for investors. But keep in mind that the sample size of this study is very small; only nine recessions occurred between 1953 and 2001. Also, the current economic crisis is largely viewed as the worst since the Great Depression, so the rebound may take longer than past recessions.

As always, it's crucial to stick with a long-term investment plan that reflects your goals, timetable, and risk tolerance. We are closely following developments in the economy and investment markets and would be happy to discuss whether any adjustments to your portfolio might be in order. ●



according to the U.S. Social Security Administration. If you've already started drawing benefits, you could pay back that money and still get the higher payments.

Consider taking a part-time job. The notion of a completely idle retirement has faded in recent years, with many retirees preferring to keep working even when money isn't an issue. If it is an issue now, look for something you'll enjoy that will also help you preserve your savings and give your investments time to recover.

Weigh the costs and benefits of a



reverse mortgage. Tapping the equity in your home in this way, though often not as ideal as refinancing at a lower interest rate, could help you weather the economic storm. You'll get monthly income or a line of credit with repayment delayed until you sell the home or die. But interest rates and closing costs can be high, so please let us help you evaluate this or

any other financial moves you're considering. These are scary times for retirees, but together we can come up with a plan to minimize the impact on your long-term goals. ●

Financial Plans Are Meant To Be Revised

One great benefit of a financial plan is that it gives you a feeling of certainty. Designed to take into account wide-ranging scenarios, it seemingly should be able to shrug off an uptick in inflation, a bear-market stretch for stocks, or a spike in interest rates. Yet there are some circumstances—such as the recent once-in-several-decades plunge of the economy and financial markets—that even the most carefully constructed plan can't fully anticipate. Such events, as well as possible changes in your own situation, mean that every financial plan, sooner or later, will have to be revised. Preparing a financial plan is a process, not a one-time event, and making smart, timely alterations is crucial.

Consider how that process works. A financial advisor takes stock of an investor's overall financial situation and asks questions about goals, comfort level with investment risks, and the timetable for using investment proceeds. Then, the advisor establishes a comprehensive plan designed to help achieve those objectives.

That requires several assumptions

about how markets and the economy will behave.

For example, an advisor might base a plan on a projected inflation rate of 3%, an 8% average annual return for stocks, and 4% yearly gains for bonds. Though some or all of those assumptions might miss the mark, the idea is that, taken together, they should be close enough to be useful. Yet even small inaccuracies, left uncorrected for 20 or 30 years, will leave a plan seriously out of whack.

Think of a ship setting out from New York for, say, Lisbon. The captain charts a course that should take the ship across the Atlantic to Portugal. But what if he makes a small miscalculation? Even if he's off only 1%, that could be a problem, and unexpected changes in winds and currents along the way are likely to make things worse. If he sticks to his original bearings, he could end up in Africa—or Ireland.



But that won't happen, because every good sailor understands the need for minor but constant course corrections. And a financial plan

requires similar adjustments. Look at the predictions of economists, market forecasters, or the government, and you'll see that no estimate extending more than a year or two into the future

will be even close. So a financial plan written to predict the feasibility of a retirement 30 years away won't—and can't—be accurate. But it can establish a starting point. Reaching your goals requires frequent adjustments to compensate for the winds and currents you meet along the way.

Once you understand that basic certainty, you can prepare by discussing how, and under what circumstances, your plan will need to be altered. We would be happy to review your plan with you to make sure it continues to move you toward your long-term goals. ●

Reassess Your Finances

(Continued from page 1)

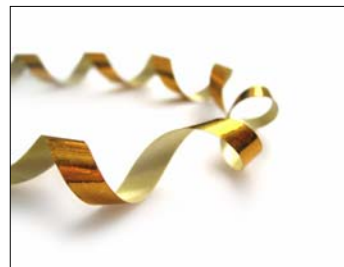
important estate-planning document, and an annual review can help you keep up with changing family circumstances, take advantage of ever-shifting tax laws, and avoid potentially disastrous mistakes such as language that might shortchange your spouse by sending too much of your wealth into a credit shelter trust.

Name a guardian for your children. If you've held off because you hate to think of someone else raising your kids, consider this: If you haven't designated a guardian to take over if you die while your children are minors, the state will pick someone for you. Make sure your choice is up for the job and understands what you want

for your pride and joy.

Investigate long-term care insurance. Health costs continue to spiral upward, and the already high price of a nursing home stay could be astronomical by the time you need care, quickly depleting your retirement nest egg. Look into the costs and coverage options of a long-term care policy.

Make sure your insurance matches your needs. The wealthy often have unintended gaps in property and casualty coverage with inadequate insurance for multiple homes, art collections, and special liabilities. Review your coverage with an insurance expert, and consider whether



you need an umbrella policy to protect you from punishing court judgments.

Also, make sure your jewelry is protected for its replacement value.

Be sure your heirs are properly designated. Life changes. Divorce, death, and family squabbles happen.

Sometimes people simply forget to change their beneficiaries on IRAs or the title on real estate and other major assets. It's not uncommon for former spouses to inherit IRAs or for insurance proceeds to go to the wrong people. Review your beneficiaries for all your outstanding IRAs, retirement plans, insurance policies, and other assets. ●

City State Bank Trust & Investments

Grimes • Indianola • Madrid • New Virginia • Norwalk

Not FDIC Insured, Not a bank deposit or product, May lose value and is subject to investment risk including possible loss of principal.